

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 INT-05 FEA-01

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TAGS: ECON, EFIN, EINV, CI

SUBJECT: ECONOMIC SUPER MINISTER EXPRESSES SATISFACTION WITH
PROGRESS OF RECOVERY PROGRAM

REF: A. SANTIAGO 2964 B. SANTIAGO A-93

1. SUMMARY. IN JULY 23 ""PROGRESS OF RECOVERY"" PRESENTATION
TO JUNTA, FINANCE MINISTER JORGE CAUAS MAINTAINED THAT
ECONOMIC AUSTERITY PROGRAM WAS ADVANCING MOST SATISFACTORILY.
CAUAS CLAIMED THAT BUDGET BALANCING AND BOP OBJECTIVES WERE
BEING ATTAINED AND IMPLIED THAT PERIOD OF AUSTERITY WOULD
NOT BE LONG. END SUMMARY.

2. BUDGET. CAUAS TOLD JUNTA THAT ECONOMIC RECOVERY PROGRAM'S
BUDGETARY REDUCTIONS AND TAX HIKES HAD RESULTED IN VIRTUAL
ELIMINATION OF DEFICIT IN CENTRAL GOVERNMENT'S ESCUDO BUDGET.
CAUAS SAID THAT WHILE STATE ENTERPRISES WERE CONTINUING TO
RUN LARGE GLOBAL DEFICITS THEY WOULD BE REDUCED DURING SECOND
HALF OF 1975 AND DURING 1976. CAUAS ACKNOWLEDGED LARGE
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DOLLAR DEFICIT REMAINED DESPITE FISCAL RETRENCHMENT PROGRAM

BUT ATTRIBUTED IT TO LOW COPPER PRICES AND HEAVY DEBT SERVICING OBLIGATIONS. (NOTE: CENTRAL GOVERNMENT BUDGET SHOWED SMALL SURPLUS IN MAY FOLLOWING SEVERAL MONTHS OF VERY LARGE DEFICITS. QUARTERLY PAYMENT OF MANY TAXES CAUSES SUBSTANTIAL FLUCTUATIONS IN REVENUES, HENCE MAY SURPLUS MAY NOT BE REPEATED. SINCE STATE ENTERPRISES PROBABLY CONTINUED TO RECEIVE CENTRAL BANK FINANCING, THE OVERALL PUBLIC SECTOR MOST LIKELY RAN SMALL DEFICIT.)

3. INFLATION. CAUAS ASSERTED THAT RATE OF INFLATION HAD BEEN "TECHNICALLY" REDUCED BY HALF AND THAT IT WOULD CONTINUE TO FALL IN COMING MONTHS. (NOTE: IT IS NOT ENTIRELY CLEAR WHAT CAUAS MEANS BY "TECHNICAL" REDUCTION OF INFLATION. LATELY, HOWEVER, MUCH HAS BEEN MADE OF FACT THAT MOST PRICE INCREASES HAVE BEEN ADJUSTMENTS IN CONTROLLED PRICES, WHICH PRESUMABLY LAG BEHIND UNDERLYING SOURCES OF INFLATION, RATHER THAN IN FREE PRICES.)

4. BALANCE OF PAYMENTS. ACCORDING TO CAUAS, PROSPECTIVE BOP DEFICIT HAS BEEN REDUCED TO AMOUNT THAT WILL NOT BE DIFFICULT TO FINANCE. HE CITED EXPORT FIGURES SHOWING AGRICULTURAL SHIPMENTS UP 170 PERCENT, INDUSTRIAL SHIPMENTS UP 50 PERCENT AND OTHER THAN COPPER MINERAL SHIPMENTS UP 120 PERCENT DURING FIRST FOUR MONTHS 1975 AS SUPPORTING WISDOM OF GOC'S EXCHANGE RATE AND TAX REBATE (VAT) POLICIES. CAUAS ASSERTED THAT EXCHANGE RATE DEVALUATIONS HAD BEEN WORTH \$450 MILLION OF EXTERNAL ASSISTANCE, PRESUMABLY MEANING THAT INCREMENTAL EXPORTS AND IMPORT DECREMENTS ADD UP TO THIS AMOUNT.

5. FOREIGN INVESTMENT. CAUAS NOTED THAT \$190 MILLION OF FOREIGN INVESTMENTS HAVE NOW BEEN APPROVED AND \$100 MILLION MORE ARE UNDER STUDY. THIS DOES NOT COUNT PROSPECTIVE LARGE INVESTMENTS IN NEW COPPER DEPOSITS NOW IN PRELIMINARY STAGE OF NEGOTIATION NOR POTENTIAL PETROLEUM AND PETROCHEMICAL INVESTMENTS. COMMENT: GOC HAS RECENTLY BEEN MAKING SPECIAL EFFORTS TO REMOVE BUREAUCRATIC OBSTACLES TO FOREIGN INVESTMENT CLEARANCE PROCESS. APPROVALS, HOWEVER, REPRESENT POTENTIAL INVESTMENTS MANY OF WHICH WILL BE CONSUMMATED ONLY AFTER CONSIDERABLE LAG.

6. BURDEN OF AUSTERITY. CAUAS CASTIGATED AS DEMONSTRATING BAD LIMITED OFFICIAL USE

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FAITH INSINUATIONS THAT AUSTERITY BURDEN IS NOT BEING SHARED BY ALL CHILEANS. HE ASSERTED THAT SINCE MINIMUM REMUNERATIONS HAVE INCREASED MORE THAN CPI, PURCHASING POWER OF PEOPLE IN THIS INCOME CATEGORY HAVE IN FACT IMPROVED.

7. OUTLOOK. CAUAS PREDICTED THAT A SMALL COPPER PRICE RISE IN 1976 WOULD BE SUFFICIENT TO TAKE CARE OF THE LARGER PART OF CHILE'S BOP DEFICIT. INFLATION, HE SAID, WAS BEING BROUGHT

DOWN RAPIDLY, AND ONCE A REASONABLE DEGREE OF ECONOMIC STABILITY WAS ATTAINED, THERE WOULD BE SUFFICIENT INCENTIVES TO ASSURE SLOW, AT FIRST, BUT ACCELERATING RATE OF GROWTH.

8. COMMENT: PUBLICITY GIVEN TO STATEMENT INCLUDING FULL PUBLICATION IN CHILE'S LEADING NEWSPAPER, EL MERCURIO, INDICATES THAT CAUAS' PRESENTATION SHAPED WITH VIEW TO REINFORCING PUBLIC CONFIDENCE IN ECONOMIC RECOVERY PROGRAM. AS ALWAYS, CAUAS ARGUES HIS CASE VERY COGENTLY. HE IS PROBABLY PRETTY MUCH ON TARGET AS CONCERNS CONTROLLING INFLATION AND MANAGING THE BOP DEFICIT. WE THINK, HOWEVER, THAT HIS ASSESSMENT OF LONGER TERM OUTLOOK FOR GROWTH AND FOR THE BOP IS OVERLY OPTIMISTIC.
POPPER

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